FOR MYSORE STATE

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Finance (1953.) Department.

MS SERIES.

G.O. No. 703

Dated 2-5-53

[Despatch Abstract.]

Foreign exchange - Procedure for payment by Diplomatic Missions abroad on behalf of the State Governments.

FINANCE DEPARTMENT

G. O. No. 703, 2nd May 1953

Foreign exchange—Procedure for payments by Diplomatic Missions abroad on behalf of the State Governments.

READ—the following papers :—

G.O. No. 201, Finance, dated 3rd March 1949.

Letter from the Government of India, Ministry of External Affairs, dated 11th April 1953, No. F. 18 (5) A/52.

Order—No. 703, Finance, dated 2nd May 1953.

Communicated to the Departments of the Secretariat, Heads of Departments and Municipal Councils and District Boards, for information and guidance.

(By order of the Governor)

T. A. VARGHESE,
Secretary to Government.

To the Departments of Secretriat (all sections).
" all Heads of Departments.
" the Presidents of District Boards.
" the Executive Authorities of all Municipal Councils (through the Chairmen, Municipal Councils).
Copy to Andhra State.

ENCLOSURE.

Letter from the Government of India, Ministry of External Affairs, dated New Delhi, the 11th April 1953, No. F. 18 (5) A/52, to all state Governments.

I am directed to request that the following procedure may kindly be followed whenever you or any local body under you desire any payments to be made in overseas countries through the Indian Missions abroad :—

(1) An application with full particulars should be made in the first instance to the Government of India [Ministry of Finance (External Finance Division) for permission from foreign exchange angle to make payment in the country concerned. The procedure to be followed for making such applications will be the same as has been stated in paragraph 5 of the Government of India, Ministry of Finance letter No. F. 4 (22)-EFIII/49, dated the 19th February 1949.

(2) On receipt of necessary permission from the Government of India, the request for payment in the country abroad should be made through the State Accountant-General/Comptroller concerned to the Accountant-General, Central Revenues.

(3) The Accountant-General, Central Revenues, on receipt of request through the State Accountant-General will issue necessary authorization to the Indian Mission abroad under intimation to the State Government and the State Accountant-General concerned and this Ministry.

(4) In the case of payments to be made in London, through the High Commissioner for India, London, an authorization from the Accountant-General, Central Revenues, is not necessary. The State Accountant-General may send a request direct to the Mission.

SUB-ENCLOSURE.

(1)

Copy of letter No. F 4-(22)/E.F. III/49, dated 19th February 1949, from the Government of India, Ministry of Finance, Communicated in G.O. No. 201, Finance, dated 3rd March 1949.

I am directed to refer to the Government of India, Finance Department, letter No. 31-S/47, dated the 14th August 1947, wherein Provincial Governments were advised of the deterioration in the country's foreign exchange position. Foreign expenditure which the Provincial Governments are desirous of incurring has so far been regulated by the Government of India in the

following ways. When expenditure is to be incurred on purchases through the Directorate-General, Industry and Supply, Provincial Governments have to obtain prior sanction of the Ministry of Finance of the Government of India before placing orders on the Directorate General. When Provincial Governments wish to make purchases of imported goods, whether from the trade in this country or from firms abroad, it is left the firm concerned or the Provincial Government to apply for an import licence to the appropriate licensing authorities. When Provincial Government wishes to make a payment abroad under a contract, e.g., for services rendered or to remit monies abroad for other purposes, it has to take the prior permission of the Government of India or the Reserve Bank of India.

2. The overall foreign exchange position of India is little better than when the letter above mentioned was written. The shortage of United States of America dollars and of other hard currencies (a list whereof enclosed) is extremely acute and as Provincial Governments are aware, the Government of India are being forced to borrow these currencies from the International Monetary Fund and the International Bank. Not only is foreign borrowing undesirable in itself but our capacity to borrow and the capacity of lenders to lend is limited. It has, therefore, become imperative both to economice drastically in the present expenditure of hard currencies and to ensure that commitments are not entered into which might in future necessarily lead to hard currency expenditure. This matter has assumed added importance and urgency as provincial developmental schemes are now reaching the stage at which they are ripe for orders for plant and equipment to be placed abroad.

3. As Provincial Government orders have on the whole so far been small and for isolated items of plant and equipment which could not be obtained otherwise than from the hard currency area, no serious embarrassment has been caused to the Government of India by occasional cases of failure on the part of Provincial Governments to consult them before placing orders for imported goods or before entering into contracts involving foreign expenditure. Practically all such commitments have so far been honoured by the Government of India. Such post facto concurrence cannot however obviously be assumed when the amounts involved are large and I am therefore to suggest that Provincial Governments should make sure, in their own interests, by reference to the Government of India, well in advance of entering into a commitment involving foreign expenditure, in particular hard currencies, that the foreign exchange will be available. For this purpose the employment of a foreigner for service in India must be considered to be a commitment involving foreign expenditure. In the absence of the previous consent of the Government of India having been obtained for expenditure of a definite amount of foreign exchange, the Government of India feel they will have no option, in view of the present acute shortage of foreign exchange, but to refuse the grant of exchange. Facilities irrespective of the fact that firm commitments (including the signature contracts) might have been entered into between Provincial Governments and foreign firms. Such action which may cause serious embarrassment to Provincial Governments will nevertheless have to be taken for the simple reason that the exchange is not available.

4. When a case is referred to the Government of India for the provision of foreign exchange it would be helpful if it is presented in the following form:—

(i) *Summary of the proposal.*—This should give a fair amount of detail.

(ii) *Total estimated cost.* This should give cost in (*a*) rupee, (*b*) soft currencies, e.g., sterling; and (c) hard currencies, e.g., dollars, by calendar/financial years.

(iii) *Whether proposal is complete in itself.*—If further expenditure is involved, estimates (by currency areas) should be given.

(iv) *How it is proposed to obtain the finance*—e.g., from provincial resources, loans from the centre, public borrowing, etc.

(v) *Justification for hard currency expenditure.*—It should be stated what efforts have been made to obtain the goods and services concerned from soft currency sources. In the case of large developmental schemes it should be stated what steps have been taken to publicise the Provincial Government's requirements in soft currency countries through India's diplomatic or trade representatives or otherwise. When the reason for going to a hard currency country is a saving it costs, the amount of saving involved should be stated; when the reason is saving in time, it should be clearly explained why the project is considered so urgent as to justify the extra cost, if any, and the use of hard currency, *it should also be stated if the construction in India is likely to be ready for the use of imported material and equipment as soon as it is received.*

5. Applications to the Government of India for the provision of foreign exchange should be made to the Ministry concerned with the particular object for which exchange is required, a duplicate being forwarded to the Ministry of Finance (External Finance Division) for information only. Thus hydro-electric or irrigation projects should be referred to the Ministry of Works, Mines and Power; industrial projects to the Ministry of Industry and Supply; agricultural projects to the Ministry of Agriculture and the like. Where the subject-matter of the reference does not fall within the orbit of any particular Ministry of the Government of India the application may be addressed to the Ministry of Finance direct. The greater the hard currency expenditure, the stricter will be the scrutiny of the Government of India and the more difficult will be the provision of exchange. Further, as this scrutiny will take very considerable time, the Provincial Governments would be well advised to submit their proposals to the Government of India well in advance of the time they may wish to enter into firm commitments. The Government of India will, I am to regret, be quite unable to reduce the strictness of their scrutiny on the plea that delay might endanger the contract.

6. I am to add that the Government of India are informed that as a result of the comparatively rapid rehabilitation of the economies of the United Kingdom and Continental Europe and in particular of France and Italy, the availabilities of industrial plants and equipments in those countries are now much better than they used to be even a short time ago. Further, I am to request that before deciding upon employing technical consultants from hard currency areas Provincial Governments should make sure that equally competent technical advice is not available from the sterling and soft currency areas.

7. It is requested that the contents of this letter may be specifically bought to the notice of all Heads of Departments of your Government.

Copies forwarded to all Ministries of the Government of India, India. All Ministries are requested to forward such applications when received to the Ministry of Finance (External Finance Division) with their comments. The contents of this letter may also please be brought to the notice of all Heads of Departments under their control.

2. The Ministry of Commerce is requested to ensure that import licences are not issued for capital goods and heavy electrical plant and equipment required by Provincial Governments without making sure that the foreign exchange sanction of the Ministry of Finance has been obtained.

3. The Ministry of States is requested to communicate copies of this letter to all States and Unions of States with the request that in this matter they should follow the same procedure as Provincial Governments without which it will be impossible for the Government of India to allow them foreign exchange no matter what commitments they may have entered into.

4. The Ministry of Works, Mines and Power, is requested to send a copy of this letter to the Damodar Valley Corporation. This corporation, though for purposes of import control to be treated as a private firm, would nonetheless be well-advised in its own interest to obtain the prior concurrence of the Government of India in the same fashion as Provincial Governments. Copies may also be communicated to the Delhi Central Power Authority and other similar Governmental owned organizations.

5. Copy also forwarded to the Expenditure, General, Internal Finance, and Industry and Commerce Divisions of the Ministry of Finance for information.

6. Copy also forwarded to the Reserve Bank of India. They are requested in particular to ensure that no remittances are made to hard currency countries by employees of Provincial Governments and States without making sure that the sanction of the Government of India has been obtained for their employment.

(2)

Hard Currency Area.

1 United States of America and territory under the Sovereignty of the United States of America.
2 The Phillipines Islands.
3 Canada and New Foundland.
4 Bolivia.
5 Colombia.
6 Costa Rica.
7 Cuba.
8 Dominican Republic.
9 Ecuador.
10 Guatemala.
11 Haiti.
12 Honduras.
13 Mexico.
14 Nicaragua.
15 Panama.
16 Salvador.
17 Vanezuela.
18 Liberia.

(True copy)

Forwarded to Mysore Govt

(By order)

Superintendent.